

**Northeast Michigan Community Mental Health Authority**

**FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

September 30, 2008

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**MANAGEMENT'S DISCUSSION AND ANALYSIS****Using this Annual Report**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses and Changes in Net Assets provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances.

In 2007-08, the Authority is using an allowable alternative approach to present its financial information. Governmental entities that have single programs are allowed to present a combined government-wide and fund financial statement by using a columnar format that requires no reconciliation between fund types. The operations of the Authority are therefore presented using an Enterprise Fund accounting methodology. Thus, the financial information is presented in a manner similar to a private business enterprise. It is the intent of management that this reporting approach gives the reader a clearer picture of its financial condition.

**The Authority as a Whole**

The table below shows a comparison of the net assets of the Authority as of September 30, 2008 compared to the prior year.

	<b>Enterprise Activities</b>	
	<b>2007-08</b>	<b>2006-07</b>
Current assets	\$ 5,645,840	\$ 5,809,188
Non-current assets	2,395,241	2,462,240
Total assets	8,041,081	8,271,428
Long-term debt outstanding	1,337,865	1,560,404
Other liabilities	1,679,647	1,639,983
Total liabilities	3,017,512	3,200,387
<b>Net Assets</b>		
Invested in capital assets, net of debt	1,768,342	1,612,803
Restricted Internal Service Funds	460,929	658,455
Restricted Debt Service	626,899	849,436
Unrestricted	2,167,399	1,950,347
Total net assets	\$ 5,023,569	\$ 5,071,041

The current level of unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, is \$2,167,399. This represents about 9.8% of current year expenditures, an increase of 0.4% as compared to 2006-07. The Authority's total net assets decreased 0.9% from a year ago.

Northeast Michigan Community Mental Health Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

As allowed by the Michigan Mental Health Code and the Authority's intergovernmental contracts, the Authority has established internal service funds to reserve a portion of its cash balances to fund replacement of capital assets and state inpatient facility usage risk. The Authority's total Restricted Internal Service Funds decreased \$197,526 or 30.0% from a year ago.

The Authority also has restricted a portion of its cash balances to fund 100% of its long-term debt obligations collateralized by facilities, vehicles, and equipment. The Authority's total Restricted Long Term Debt fund decreased \$222,537 or 26.2% from a year ago.

The table below shows a comparison of the change in net assets of the Authority as of September 30, 2008 compared to the prior year.

	<u>Enterprise Activities</u>	
	<u>2007-08</u>	<u>2006-07</u>
Total program revenues	<u>\$ 21,973,604</u>	<u>\$ 21,335,977</u>
Health and human service expenses:		
Mental health services expense	\$ 5,518,803	\$ 4,982,133
Developmental disability services expense	13,705,189	12,323,826
Other support services expense	1,736,396	2,161,687
Board administration expense	<u>1,060,688</u>	<u>1,279,504</u>
Total health and human service expenses	<u>22,021,076</u>	<u>20,747,150</u>
Change in net assets	<u>(\$ 47,472)</u>	<u>\$ 588,827</u>

Total revenues increased by 3.0% while total expense increased by 6.2% in 2007-08.

**Enterprise Fund Budgetary Highlights**

Over the course of the year, the Authority amended the budget twice to take into account changes in funding amounts and consumer needs that changed during the year.

During 2007-08, actual Medicaid expenditures were \$42,680 less than allocated by our Northern Affiliation. The Authority is required by contract to return these unused funds to the affiliation. The Authority's total Medicaid expenditures included \$445,744 carried forward from the affiliation's 2006-07 contract. These carried forward funds were used to fund residential costs for mental health consumers moved out of state inpatient facilities in 2005-06.

## Northeast Michigan Community Mental Health Authority

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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During 2007-08, actual General Fund expenditures were \$24,969 less than allocated by the Michigan Department of Community Health. 100% of these funds will be retained for use in 2008-09.

The Authority's net expenditures were below planned levels by \$394,260 during 2007-08. The majority of this under-spending was in salaries, contracted local inpatient services, and asset purchases.

#### **Capital Asset and Debt Administration**

During 2007-08, the Authority removed \$1,077,079 of fully depreciated assets from its financial statements. These were assets having an original cost of less than \$5,000 per asset that were expensed in the year of purchase. Although all assets are still inventoried and monitored by the Authority, only items in excess of \$5,000 will be included as Capital Assets. For comparison purposes, Capital Assets at the end of 2006-07 have been decreased to \$3,632,714 to reflect the removal of items costing less than \$5,000.

As of September 30, 2008, the Authority had \$3,789,379 invested in capital assets, including land, buildings, equipment, furniture, vehicles, and leasehold improvements. This is an increase of \$156,665 or 4.3% as compared to 2006-07. The total debt related to fixed assets was \$626,899. This is a decrease of 26.2% as compared to 2006-07.

The most significant capital asset purchases during fiscal year 2007-08 were for vehicles, computer equipment and software, copy/fax machines, and roofing/shingle replacements at 1 of our owned homes. The Authority has a long-term vehicle replacement plan in place to replace high mileage and high maintenance vehicles. The Authority replaced four and purchased one new vehicle during fiscal year 2007-08.

#### **Economic Factors and Next Year's Budgets**

The Authority budget for fiscal year 2008-09 will be approximately \$317,671 more than fiscal year 2007-08. This increase is due primarily to an increase in Medicaid funds from our Northern Affiliation and anticipated usage of reserved internal service fund monies. At the time this report was prepared, the Governor of the State of Michigan had issued a \$146,000,000 executive order that did not affect community mental health programs. However, the State still had a deficit of \$250,000,000 that it hoped would be addressed by a potential Federal stimulus package. Thus, the threat remains that community mental health programs may be subject to further 2008-09 reductions.

State allocated General Funds are expected to decrease slightly during 2008-09 due to decreasing statewide revenues. The Authority utilizes General Funds to serve an indigent population that does not qualify for Medicaid and other state funded insurance programs. During 2007-08, the Authority used \$126,559 from its state facility Risk service fund to fully fund services to consumers in state facilities.

The Authority plans to continue to emphasize community support, employment and independent living services for consumers with serious mental illnesses or developmental disabilities, possibly offset by a reduction in the number of group homes operated by the Authority.

The Authority is planning no new long-term debt borrowing in 2008-09.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Contacting the Authority's Management**

This financial report is intended to provide all readers with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Finance office.



DENNIS, GARTLAND & NIERGARTH

Certified Public Accountants  
Business Advisors

Thomas E. Gartland, CPA  
Brad P. Niergarth, CPA  
James G. Shurnate, CPA  
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Shelly K. Bedford, CPA  
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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of the  
Northeast Michigan Community Mental  
Health Authority

We have audited the accompanying financial statements of the business-type activities, the major fund and the aggregate remaining fund information of the *Northeast Michigan Community Mental Health Authority* (the "Authority") as of and for the year ended September 30, 2008, which collectively comprise the Authority's financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the major fund and the aggregate remaining fund information of Northeast Michigan Community Mental Health Authority as of September 30, 2008, and the respective changes in financial position and cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2009 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions, laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors of the  
Northeast Michigan Community Mental  
Health Authority  
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The management's discussion and analysis on pages i - iv is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Dennis, Gartland & Niergarth*

January 26, 2009





DENNIS, GARTLAND & NIERGARTH

Certified Public Accountants  
Business Advisors

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of the  
Northeast Michigan Community Mental  
Health Authority

We have audited the financial statements of the business-type activities, the major fund and the aggregate remaining fund information of *Northeast Michigan Community Mental Health Authority*, (the "Authority"), as of and for the year ended September 30, 2008, which collectively comprise the Authority's financial statements and have issued our report thereon dated January 26, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section, and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Authority, management, the Board of Directors, others with the organization, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Dennis. Gartland & Niergarth*

January 26, 2009

**Northeast Michigan Community Mental Health Authority**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
September 30, 2008**

	<b>Enterprise Fund</b>	<b>Risk Reserve Internal Service Fund</b>	<b>Total Business- type Activities</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 3,382,906	\$ -	\$ 3,382,906
Restricted cash and cash equivalents	1,037,542	267,718	1,305,260
Accounts receivable	584,702	-	584,702
Inventory	18,521	-	18,521
Prepaid items	354,451	-	354,451
Total current assets	<u>5,378,122</u>	<u>267,718</u>	<u>5,645,840</u>
Non-current assets			
Capital assets not being depreciated	90,000	-	90,000
Capital assets being depreciated, net	2,305,241	-	2,305,241
Total non-current assets	<u>2,395,241</u>	<u>-</u>	<u>2,395,241</u>
Total assets	<u>7,773,363</u>	<u>267,718</u>	<u>8,041,081</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	1,021,198	-	1,021,198
Accrued payroll and payroll taxes	613,501	-	613,501
Unearned revenue	30,403	-	30,403
Current portion of long-term debt	258,873	-	258,873
Total current liabilities	<u>1,923,975</u>	<u>-</u>	<u>1,923,975</u>
Non-current liabilities			
Long-term debt, net of current portion	1,093,537	-	1,093,537
Total liabilities	<u>3,017,512</u>	<u>-</u>	<u>3,017,512</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	1,768,342	-	1,768,342
Restricted for			
Mental Health Code reserves	193,211	267,718	460,929
Other purposes	626,899	-	626,899
Unrestricted	2,167,399	-	2,167,399
Total net assets	<u>\$ 4,755,851</u>	<u>\$ 267,718</u>	<u>\$ 5,023,569</u>

The accompanying notes are an integral part of these financial statements.

**Northeast Michigan Community Mental Health Authority**

**STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
For the Year Ended September 30, 2008**

	<b>Enterprise Fund</b>	<b>Risk Reserve Internal Service Fund</b>	<b>Eliminations</b>	<b>Total Business- type Activities</b>
<b>Operating revenue</b>				
State Contracts	\$ 20,638,732	\$ -	\$ -	\$ 20,638,732
Contributions from local units	212,869	-	-	212,869
Charges for services	861,986	-	-	861,986
Other revenues and reimbursements	108,531	-	-	108,531
Total operating revenue	<u>21,822,118</u>	<u>-</u>	<u>-</u>	<u>21,822,118</u>
<b>Operating expenses</b>				
Mental health services				
Outpatient clinic and case management	2,437,512	-	-	2,437,512
Residential	1,094,753	-	-	1,094,753
Inpatient	249,434	-	-	249,434
Prevention	564,155	-	-	564,155
Community support	773,390	-	-	773,390
Supported living and housing	145,687	-	-	145,687
Employment	24,661	-	-	24,661
Other	229,211	-	-	229,211
Developmental disability services				
Residential	7,809,646	-	-	7,809,646
Community support	2,163,143	-	-	2,163,143
Supported living and housing	1,661,260	-	-	1,661,260
Employment	947,412	-	-	947,412
Clinical support and case management	970,224	-	-	970,224
Other	79,591	-	-	79,591
Inpatient	73,913	-	-	73,913
Other support services	1,698,725	-	-	1,698,725
Board administration	1,060,688	-	-	1,060,688
Total operating expenses	<u>21,983,405</u>	<u>-</u>	<u>-</u>	<u>21,983,405</u>
Operating loss	<u>(161,287)</u>	<u>-</u>	<u>-</u>	<u>(161,287)</u>
<b>Non-operating revenue (expenses)</b>				
Interest revenue	138,968	12,518	-	151,486
Interest expense	(37,127)	-	-	(37,127)
Loss on disposal of capital assets	(544)	-	-	(544)
Total non-operating revenue	<u>101,297</u>	<u>12,518</u>	<u>-</u>	<u>113,815</u>
Net income (loss) before transfers	<u>(59,990)</u>	<u>12,518</u>	<u>-</u>	<u>(47,472)</u>
Transfers in	126,559	-	(126,559)	-
Transfers out	<u>-</u>	<u>(126,559)</u>	<u>126,559</u>	<u>-</u>
Change in net assets	66,569	(114,041)	-	(47,472)
Net assets, beginning of the year	<u>4,689,282</u>	<u>381,759</u>	<u>-</u>	<u>5,071,041</u>
Net assets, end of the year	<u>\$ 4,755,851</u>	<u>\$ 267,718</u>	<u>\$ -</u>	<u>\$ 5,023,569</u>

The accompanying notes are an integral part of these financial statements.

**Northeast Michigan Community Mental Health Authority**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
For the Year Ended September 30, 2008**

	<u>Enterprise Fund</u>	<u>Risk Reserve Internal Service Fund</u>
<b>Cash flows from operating activities</b>		
Cash received from providing services	\$ 21,542,011	\$ -
Cash payments to suppliers and affiliates	(8,842,119)	-
Cash payments for personnel services	(12,771,895)	-
Net cash used by operating activities	<u>(72,003)</u>	<u>-</u>
<b>Cash flows from noncapital financing activities</b>		
Transfers in	126,559	-
Transfers out	-	(126,559)
Net cash (used) provided by noncapital financing activities	<u>126,559</u>	<u>(126,559)</u>
<b>Cash flows from capital and related financing activities</b>		
Purchase of capital assets	(218,969)	-
Principal payments	(222,538)	-
Interest payments	(37,127)	-
Net cash used by capital and related financing activities	<u>(478,634)</u>	<u>-</u>
<b>Cash flows from investing activities</b>		
Interest received	<u>138,968</u>	<u>12,518</u>
Decrease in cash and cash equivalents	(285,110)	(114,041)
Cash and cash equivalents, beginning of the year	<u>4,705,558</u>	<u>381,759</u>
Cash and cash equivalents, end of the year	<u><u>\$ 4,420,448</u></u>	<u><u>\$ 267,718</u></u>
<b>Reconciliation of operating income to net cash used by operating activities</b>		
Operating loss	\$ (161,287)	\$ -
Adjustments to reconcile operating loss to Net cash provided by operating activities		
Depreciation	285,424	-
Changes in assets and liabilities:		
Accounts receivable	(280,108)	-
Inventory	(2,222)	-
Prepaid items	46,526	-
Accounts payable	(25,490)	-
Accrued payroll and payroll taxes	100,949	-
Unearned revenue	(35,795)	-
Net cash used by operating activities	<u><u>\$ (72,003)</u></u>	<u><u>\$ -</u></u>

**Non-Cash Transactions:**

There were no significant non-cash investing or financing activities during the year.

The accompanying notes are an integral part of these financial statements.

**Northeast Michigan Community Mental Health Authority**

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**

**AGENCY FUND**

September 30, 2008

**Assets**

Current assets

Cash and cash equivalents	<u>\$ 85,471</u>
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**Liabilities**

Due to consumers	<u>\$ 85,471</u>
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# **Northeast Michigan Community Mental Health Authority**

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Northeast Michigan Community Mental Health Authority (the "Authority"), is a multi-county governmental authority serving Alcona, Alpena, Montmorency and Presque Isle Counties, located in northeastern Michigan. The Authority provides community services to consumers diagnosed with severe mental illnesses, developmental disabilities, and/or substance abuse conditions. Services provided by the Authority include inpatient treatment, residential services, case management, outpatient treatment, employment, and prevention services. The Authority operates under a 12-member Board of Directors.

**Reporting Entity** – These financial statements represent the financial condition and the results of operations of the Authority. The Authority is not a component of any other reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*.

**Government-Wide and Fund Financial Statements** – As permitted by GASB Statement No. 34, the Authority uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets - Proprietary Funds and the Statement of Activities and Proprietary Fund Revenues, Expenses and Changes in Net Assets. The Authority's only major fund is reported in a separate column in the aforementioned financial statements.

The operations of the Authority are accounted for as an Enterprise Fund (a proprietary fund) which is designed to be self-supporting. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Risk Reserve Internal Service Fund (a proprietary fund type) is used to account for assets held as a reserve against potential liabilities relative to and as allowed by its contract with the Michigan Department of Community Health (MDCH). Pursuant to these contractual provisions, the Authority's risk management plan has been submitted to MDCH.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation** – The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

## NOTES TO FINANCIAL STATEMENTS - Continued

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The enterprise fund is the Authority's primary operating fund, and only major fund. It accounts for all financial resources of the government, except those required to be accounted for in another fund.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's operating fund are contract revenues from MDCH and first and third party payers. Operating revenues of the internal service funds are comprised of charges to other funds for risk financing. Operating expenses include the cost of providing mental health and development disability services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Cash and Cash Equivalents** – The Authority's cash consists of cash on hand and demand deposits. Restricted cash and cash equivalents represent amounts held in reserve accounts as authorized by the State of Michigan Mental Health Code.

**Receivables** – Receivables consist primarily of amounts due from individuals and private or governmental insurance programs and grant reimbursements under the terms of contracts with other agencies, governments and organizations for services rendered. Receivables from first and third party payers are presented net of an allowance for uncollectible accounts as estimated by management. The allowance was equal to approximately \$47,717 at September 30, 2008.

**Inventory and Prepaid Items** -- Inventory is valued at cost, primarily determined on a first-in, first-out basis. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** – Capital assets, which include buildings, improvements, equipment, and vehicles, are capitalized and reported in the financial statements. Capital assets are defined as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded for reporting purposes at historical cost or estimated historical cost if constructed or purchased. In addition, the Authority maintains accountability over all capital assets with an initial cost between \$200 and \$5,000. However, consistent with the provisions of OMB Circular A-87, such items are expensed when purchased, as management believes they are not material to the financial statements.



# NOTES TO FINANCIAL STATEMENTS - Continued

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Buildings and leasehold improvements	15
Equipment	5-7
Vehicles	5

**Compensated Absences** Reflects the accrual of compensated absences adjusted to current salary costs. Permanent employees earn annual leave based upon full or part-time status proportionate to the time worked. Annual leave is 100% vested when earned and may be accrued to a total of 360 hours. Employees are paid 100% of annual accumulated leave when they terminate employment. A small number of employees have accrued leave hours exceeding 360 as allowed by a revision in the leave policy in April 2000. Upon termination, these employees are paid a percentage of their unused leave balances exceeding 360 hours, depending upon the number of hours accumulated and their employment classification.

## NOTE B - CASH AND CASH EQUIVALENTS

### Deposits

The captions on the financial statements relating to cash and cash equivalents are as follows:

	<u>Business- type Activities</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and cash equivalents	\$3,382,906	\$85,471	\$3,468,377
Restricted cash and cash equivalents	<u>1,305,260</u>	<u>-</u>	<u>1,305,260</u>
	<u>\$4,688,166</u>	<u>\$85,471</u>	<u>\$4,773,637</u>

Cash and cash equivalents are comprised of the following at year-end;

Petty cash	\$ 2,950
Checking and savings accounts	3,465,427
Certificates of deposit (due within one year)	<u>1,305,260</u>
	<u>\$4,773,637</u>

**NOTE B - CASH AND CASH EQUIVALENTS - Continued**

**Deposit Risk**

*Custodial credit risk.* Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year-end, \$4,538,666 of the Authority's bank balance of \$4,808,666 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Statutory Authority**

The Authority is authorized by the State of Michigan to invest surplus funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the Authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE C - CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Capital assets not being depreciated</b>				
Land	\$ 90,000	\$ -	\$ -	\$ 90,000
<b>Capital assets being depreciated</b>				
Buildings	1,859,535	-	-	1,859,535
Building improvements	324,078	14,693	77,089	261,682
Leasehold improvements	133,864	-	112,005	21,859
Vehicles	1,050,201	93,103	81,604	1,061,700
Computer equipment	647,697	25,549	453,256	219,990
Furniture	182,444	-	182,444	-
Client equipment	33,581	22,652	-	56,233
Other equipment	388,393	62,972	232,985	218,380
Total capital assets being depreciated	4,619,793	218,969	1,139,383	3,699,379
<b>Accumulated depreciation</b>				
Buildings	325,215	61,778	-	386,993
Building improvements	136,908	18,680	77,089	78,499
Leasehold improvements	117,758	1,460	112,005	7,213
Vehicles	572,984	165,479	81,060	657,403
Computer equipment	621,130	8,264	453,256	176,138
Furniture	182,444	-	182,444	-
Client equipment	19,499	4,000	-	23,499
Other equipment	271,615	25,763	232,985	64,393
Total accumulated depreciation	2,247,553	285,424	1,138,839	1,394,138
Capital assets being depreciated, net	2,372,240	(66,455)	544	2,305,241
<b>Capital assets, net</b>	<b>\$ 2,462,240</b>	<b>\$ (66,455)</b>	<b>\$ 544</b>	<b>\$2,395,241</b>

NOTES TO FINANCIAL STATEMENTS – Continued

**NOTE D - LONG-TERM DEBT**

The following is a summary of long-term debt transactions of the Authority for the year ended September 30, 2008:

	<u>Balance 10/1/2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2008</u>	<u>Due Within One Year</u>
Note payable - building, interest at 5.43%, due in December 2010	\$ 73,191	\$ -	\$ 21,208	\$ 51,983	\$ 22,417
Note payable - mortgage, interest at 4.66%, due in June 2012	534,124	-	102,657	431,467	107,922
Note payable - building, interest at 6.0%, due in June 2013	84,047	-	12,620	71,427	13,398
Notes payable - vehicles, interest at 5.2%, due in May and June, 2009	92,973	-	53,387	39,586	39,586
Notes payable - computer equipment, interest at 4.75%, due in August and September, 2009	<u>65,102</u>	<u>-</u>	<u>32,666</u>	<u>32,436</u>	<u>32,436</u>
Subtotal	<u>849,437</u>	<u>-</u>	<u>222,538</u>	<u>626,899</u>	<u>215,759</u>
Compensated absences	<u>710,967</u>	<u>57,658</u>	<u>43,114</u>	<u>725,511</u>	<u>43,114</u>
Total long-term debt	<u><b>\$1,560,404</b></u>	<u><b>\$57,658</b></u>	<u><b>\$265,652</b></u>	<u><b>\$1,352,410</b></u>	<u><b>\$258,873</b></u>

The annual requirements to maturity on long-term debt (excluding compensated absences) at September 30, 2008 are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 215,759	\$ 25,616
2010	150,928	16,784
2011	139,467	9,517
2012	108,075	3,075
2013	<u>12,670</u>	<u>319</u>
	<u><b>\$ 626,899</b></u>	<u><b>\$ 55,311</b></u>

## NOTES TO FINANCIAL STATEMENTS – Continued

### NOTE E - LEASES

The Authority is party to numerous operating leases, for which aggregate rental expense was approximately \$259,130. These leases are for residential property and office facilities used to shelter and serve the needs of consumers.

The following is a schedule of future minimum lease payments required under the operating leases that have initial or remaining terms as of September 30, 2008:

<u>September 30,</u>	
2009	\$ 130,149
2010	131,939
2011	126,285
2012	72,226
2013	62,205
2014-2016	123,688
	<u>\$ 646,492</u>

### NOTE F - PENSION PLANS

The Authority has adopted a defined contribution retirement plan covering all full-time employees. Employer contributions of up to 7.5% of gross wages are paid to the plan trustees on a biweekly basis at the same time that wages are paid. The covered payroll for the plan was \$7,938,693. Total employer contributions for the year ended September 30, 2008, were \$562,123.

#### *Alternative Social Security Plan*

The Authority contributes 5.7% of all non-union employees' salary to the plan. Employees are also required to contribute 6.2% of their salary to the plan. The contributions to the plan are made in lieu of Federal Social Security contributions. Under this plan, employees are 100% vested in their account at inception. Employees of the Authority not eligible to participate in this plan are covered by the Federal Social Security system.

### NOTE G - CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, the Authority is subject to periodic audits of its agreements. Such audits could lead to questioned costs and/or requests for reimbursement to grantor or regulatory agencies.

As is the case with other entities, the Authority faces exposure from potential claims and legal proceedings involving environmental and other matters. No such claims or proceedings have been asserted as of September 30, 2008.

NOTES TO FINANCIAL STATEMENTS – Continued

**NOTE H - RESTRICTED NET ASSETS**

The Authority reports restricted net assets for certain reserve accounts established pursuant to the State of Michigan Mental Health Code. As of September 30, 2008, restricted net assets were comprised as follows:

	<u>State Facilities Risk Reserve</u>	<u>Asset Replacement</u>	<u>Compensated Absences</u>	<u>Self Insurance</u>	<u>Total</u>
Restricted cash and cash equivalents	\$ 267,718	\$ 193,211	\$ 725,511	\$ 118,820	\$1,305,260
Less related payables	<u>          -</u>	<u>          -</u>	<u>725,511</u>	<u>118,820</u>	<u>844,331</u>
<b>Restricted net assets</b>	<b><u>\$ 267,718</u></b>	<b><u>\$ 193,211</u></b>	<b><u>\$          -</u></b>	<b><u>\$          -</u></b>	<b><u>\$ 460,929</u></b>

In addition, \$626,899 has been internally restricted by Board action as a reserve for long-term debt.

**Northeast Michigan Community Mental Health Authority**

**CMH COMPLIANCE EXAMINATION**

September 30, 2008

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DENNIS, GARTLAND & NIERGARTH

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**INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO MEDICAID AND GF PROGRAMS AND  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH CMH  
COMPLIANCE EXAMINATION GUIDELINES ISSUED BY THE MICHIGAN  
DEPARTMENT OF COMMUNITY HEALTH**

To the Board of Directors of the  
Northeast Michigan Community Mental Health Authority

**Compliance**

We have examined the compliance of the Northeast Michigan Community Mental Health Authority (the "Authority") with the specified requirements described in CMH Compliance Examination Guidelines, issued by the Michigan Department of Community Health ("MDCH"), that are applicable to its Medicaid and GF Programs for the year ended September 30, 2008. Compliance with these requirements is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the Authority's compliance with specified requirements based on specified criteria established by MDCH and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the specified requirements referred to above that are applicable to its Medicaid and GF Programs for the year ended September 30, 2008.

**Internal Control Over Compliance**

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, and contracts applicable to its Medicaid and GF Programs. In planning and performing our examination, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on its Medicaid and GF Programs in order to determine our examination procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Authority's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of the Medicaid or GF Programs on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer the Medicaid or GF Programs such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of the Medicaid or GF Programs that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-1 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of the Medicaid or GF Programs will not be prevented or detected by the entity's internal control. We do not consider item 2008-1 in the accompanying schedule of findings and questioned costs to be a material weakness.

#### Examination Schedules

As required by CMH Compliance Examination Guidelines, we have prepared the accompanying Examined FSR Schedule and Examined Cost Settlement Schedule.

This report is intended solely for the information and use of the Authority's board, management, and the Michigan Department of Community Health and is not intended to be and should not be used by anyone other than these specified parties.

*Dennis, Gurtland & Niergarth*

February 2, 2009

NORTHEAST MICHIGAN COMMUNITY MENTAL HEALTH AUTHORITY  
EXAMINED FSR SCHEDULE

FYE 9/30/2008

REVENUES		REPORTED	EXAMINATION ADJUSTMENTS	ADJUSTED TOTALS
<b>A.</b>	<b>REVENUES NOT OTHERWISE REPORTED</b>	\$71,902	\$0	\$71,902
<b>C.</b>	<b>EARNED CONTRACTS (Non DCH) TOTAL</b>	\$18,118,782	\$0	\$18,118,782
1	CMH to CMH	5,055		5,055
2	Other	54,533		54,533
3	Medicaid Managed Care - CMHSP Affiliate	18,059,194		18,059,194
<b>D.</b>	<b>MI CHILD - MENTAL HEALTH</b>	\$9,825	\$0	\$9,825
<b>D.1</b>	<b>ADULT BENEFITS WAIVER</b>	\$302,402	\$0	\$302,402
<b>E.</b>	<b>LOCAL FUNDING TOTAL</b>	\$361,560	\$0	\$361,560
1	Special Fund Account (226(a))	43,267		43,267
2	Title XX Replacement	7,872		7,872
3	All Other	310,421		310,421
4	Affiliate Local Contribution to State Medicaid Match Provided from CMHSP	0		0
<b>F.</b>	<b>RESERVE BALANCES - PLANNED FOR USE</b>	\$318,390	\$0	\$318,390
1	CF Carryforward-Sec. 226(2)(h)(c)	55,808		55,808
2	Medicaid Savings	0		0
3	Internal Service Fund - Abatement	350		350
4	Internal Service Fund - Risk Corridor	126,559		126,559
5	Other (205(4)(h)) - Reserves - Vested Employee Benefit / Depreciation	135,673		135,673
6	Stop/Loss Ins.	0		0
<b>G.</b>	<b>DCH EARNED CONTRACTS TOTAL</b>	\$284,809	\$0	\$284,809
1	PASARR	163,577		163,577
2	Block Grant for CMH Services	28,090		28,090
3	DD Council Grants	3,016		3,016
4	PATH/Hometess	10,456		10,456
5	Prevention	0		0
6	Aging	77,441		77,441
7	HUD Shelter Plus Care	0		0
8	Other DCH Earned Contracts	2,229		2,229
<b>H.</b>	<b>GROSS MEDICAID TOTAL</b>	\$37,450	\$0	\$37,450
1	Medicaid Specialty Managed Care	0		0
2	Medicaid - Children's Waiver Total	37,450		37,450
3	Medicaid - SED Waiver - Federal Dollars	0		0
<b>I.</b>	<b>REIMBURSEMENTS TOTAL</b>	\$825,089	\$0	\$825,089
1	1st and 3rd Party	122,884		122,884
2	SSI	702,205		702,205
<b>J.</b>	<b>STATE GENERAL FUNDS TOTAL</b>	\$1,885,222	\$0	\$1,885,222
1	CMH Operations	1,733,918		1,733,918
2	Categorical Funding	7,482		7,482
3	State Services Base	143,822		143,822
<b>K.</b>	<b>GRAND TOTAL REVENUES</b>	\$22,215,431	\$0	\$22,215,431
<b>L.</b>	<b>Estimated MDCH Obligation including Federal Medicaid (D + D1 + H + J)</b>	\$2,234,899	\$0	\$2,234,899

**NORTHEAST MICHIGAN COMMUNITY MENTAL HEALTH AUTHORITY**  
**EXAMINED FSR SCHEDULE**  
**FYE 9/30/2008**

EXPENDITURES		REPORTED	EXAMINATION ADJUSTMENTS	ADJUSTED TOTALS
<b>A.</b>	<b>GROSS TOTAL EXPENDITURES</b>	<b>\$22,274,542</b>	<b>\$0</b>	<b>\$22,274,542</b>
<b>B.</b>	<b>EXPENDITURES NOT OTHERWISE REPORTED</b>	<b>\$67,727</b>	<b>\$0</b>	<b>\$67,727</b>
<b>D.</b>	<b>EARNED CONTRACTS (NON DCH) TOTAL</b>	<b>\$18,118,782</b>	<b>\$0</b>	<b>\$18,118,782</b>
1	CMH to CMH	5,055		5,055
2	Other Earned Contracts	54,533		54,533
3	Medicaid Managed Care - Affiliate	18,059,194		18,059,194
<b>F.</b>	<b>LOCAL TOTAL</b>	<b>\$363,751</b>	<b>\$0</b>	<b>\$363,751</b>
1	Local Cost for State Provided Services	74,325		74,325
2	Other Not Used As Local Match	39,337		39,337
3	Affiliate Local Contribution to State Medicaid Match Provided to PIHP	250,089		250,089
4	PIHP Contribution to State Medicaid Match Provided to DCH	0		0
5	Prior Year Carry-Forward	0		0
<b>G.</b>	<b>EXPENDITURES FROM RESERVE BALANCES</b>	<b>\$191,831</b>	<b>\$0</b>	<b>\$191,831</b>
1	GF Carryforward - Sec. 226(2)(b)(c)	55,808		55,808
2	Medicaid Savings	0		0
3	Internal Service Fund - Abatement	350		350
4	Other (205(4)(h)) - Reserves - Vested Employee Benefits / Depreciation	135,673		135,673
5	Stop/Loss Ins.	0		0
<b>H.</b>	<b>MDCH EARNED CONTRACTS TOTAL</b>	<b>\$284,809</b>	<b>\$0</b>	<b>\$284,809</b>
1	PASARR	163,577		163,577
2	Block Grant for CMH Services	28,090		28,090
3	DD Council Grants	3,016		3,016
4	PATH/Homeless	10,456		10,456
5	Prevention	0		0
6	Aging	77,441		77,441
7	HUD Shelter Plus Care	0		0
8	Other DCH Earned Contracts	2,229		2,229
<b>I.</b>	<b>MATCHABLE SERVICES (A minus B through H)</b>	<b>\$3,247,642</b>	<b>\$0</b>	<b>\$3,247,642</b>
<b>J.</b>	<b>PAYMENTS TO MDCH FOR STATE SERVICES</b>	<b>\$216,458</b>	<b>\$0</b>	<b>\$216,458</b>
<b>K.</b>	<b>SPECIALTY MANAGED CARE SERVICES TOTAL</b>	<b>\$702,205</b>	<b>\$0</b>	<b>\$702,205</b>
1	100% MDCH Matchable Services	702,205		702,205
2	All SSI and Other Reimbursements	702,205		702,205
3	Net MDCH Share for 100% Services (K.1 - K.2)	0		0
4	QAAP Expenditures	0		0
5	Total MDCH (K.3 + K.4)	0		0
<b>L.</b>	<b>GF CATEGORICAL AND FORMULA SERVICES TOTAL</b>	<b>\$1,980,754</b>	<b>\$0</b>	<b>\$1,980,754</b>
1	100% MDCH Matchable Services	392,061		392,061
2	All SSI and Other Reimbursements	0		0
3	Net GF and Formula for 100% Services (L1 - L2)	392,061		392,061
4	90/10 Matchable Services	1,588,693		1,588,693
5	Reimbursements	122,884		122,884

**NORTHEAST MICHIGAN COMMUNITY MENTAL HEALTH AUTHORITY**  
**EXAMINED FSR SCHEDULE**  
**FYE 9/30/2008**

EXPENDITURES		REPORTED	EXAMINATION ADJUSTMENTS	ADJUSTED TOTALS
6	10% Local Match Funds	146,581		146,581
7	Net GF and Formula for 90/10 Services (L4 + L5 + L6)	1,319,228		1,319,228
8	Total MDCH GF and Formula (L3 + L7)	1,711,289		1,711,289
L.a	<b>MIChild Mental Health</b>	\$46,989	\$0	\$46,989
1	MIChild Mental Health - Capitation - Medicaid only	9,825		9,825
2	MIChild Mental Health - MDCH GF Operations Base	37,164		37,164
L.b	<b>Adult Benefits Waiver</b>	\$244,688	\$0	\$244,688
1	ABW - Capitation - Medicaid and State Match	244,688		244,688
2	ABW - MDCH GF Operations Base	\$0		0
L.c	<b>SED Waiver</b>	\$0	\$0	\$0
1	SED - Federal	0		0
2	SED - MDCH GF Operations Base	0		0
3	SED - Other	0		0
4	SED - Non-Federal Reimbursable - Other	0		0
M.	<b>CHILDREN'S WAIVER - TOTAL</b>	\$56,548	\$0	\$56,548
1	Medicaid	37,450		37,450
2	Other Reimbursements	0		0
3	MDCH GF Operations Base	19,098		19,098
O.	<b>TOTAL LOCAL FUNDS (F + L6)</b>	\$510,332	\$0	\$510,332
P.	<b>TOTAL MDCH SHARE OF EXPENDITURES (J+K5+L8+La+Lb+Lc1+Lc2+M)</b>	\$2,275,972	\$0	\$2,275,972

**EXAMINED COST SETTLEMENT SCHEDULE**  
**SECTION A: SETTLEMENT SUMMARY**

**NORTHEAST MICHIGAN COMMUNITY MENTAL HEALTH AUTHORITY**  
**FISCAL YEAR: 2008**

1. Medicaid	Authorization	Matchable Expenditures	Medicaid Savings	Moe / Categorical Redistribution	Sub-Total Expenditures	Redirection of GF	Total Expenditures	Total Lapse	Total Risk Corridor
a. Maintenance of Effort	0	0	0	0	0		0	0	0
b. Specialty Managed Care	0	0	0	0	0	0	0	0	0
c. Total Medicaid	0	0	0	0	0	0	0	0	0

2. General Fund	Authorization	Matchable Expenditures	GF Carry Forward	Moe / Categorical Redistribution	Sub-Total Expenditures	Redirection of GF	Total Expenditures	Total Lapse	Total Risk Corridor
a. Maintenance of Effort	0	0	0	0	0		0	0	0
b. Categorical	7,482	4,680			4,680		4,680	2,802	
c. General Fund	1,877,740	1,852,770	24,970	0	1,877,740	0	1,877,740	0	0
d. Total General Fund	1,885,222	1,857,450	24,970	0	1,882,420	0	1,882,420	2,802	

3. CASH SETTLEMENT	MDCH COMMITMENT	SETTLEMENT CASH	EXAMINED BALANCE DUE (MDCH) / CMH	ORIGINAL-STL BALANCE DUE (MDCH) / CMH	NET IMPACT BALANCE DUE (MDCH) / CMH
a. Medicaid	0	0	0		0
b. General Fund	1,882,420	1,885,222	(2,802)	(2,802)	0
c. Total	1,882,420	1,885,222	(2,802)	(2,802)	0

MDCH Commitment is the lesser of Authorization less Forced Lapses or Total Expenditures

4. State Purchased Services	CMHSP Obligation	Payments Sent MDCH	Balance Due (MDCH) / CMH	Balance Due (MDCH) / CMH	Balance Due (MDCH) / CMH
a. State Facility	216,458	216,458	0	0	0

5. Miscellaneous	Balance Due (MDCH) / CMH	Balance Due (MDCH) / CMH	Balance Due (MDCH) / CMH
a. FY XX Carry Forward	0	0	0
b.	0	0	0
c. Sub-Total	0	0	0

6. Total Cash Settlement	(2,802)	(2,802)	0
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**Medicaid Savings Earned**

Examined	0
Original Settlement	0
Increase (Decrease)	0

Comments

**GF Carry Forward Earned**

Examined	24,970
Original Settlement	0
Increase (Decrease)	24,970

Comments

**EXAMINED COST SETTLEMENT SCHEDULE**  
**SECTION B: CARRY FORWARD & MEDICAID SAVINGS**

**CMHSP/PIHP:**  
**FISCAL YEAR:**

**NEMCMHA**  
**2008**

**1. Carry Forward - State Mental Health General Funds (Formula Funding)**

	Specialty Managed Care	GF Categorical & Formula	Children's Waiver	Sub-Total	Total
a. Prior Year Carry Forward Earned				\$	55,808
b. Current Year Expenditures					
1. 100% MDCH Matchable Services	\$ -	\$ 55,808	\$ -	\$ 55,808	
2. 90/10% MDCH Matchable Services	\$ -	\$ -		\$ -	
3. 10% Local Match Funds	0	0		0	
4. Net State Share for 90/10% Services	\$ -	\$ -		\$ -	
5. Total MDCH Share	\$ -	\$ 55,808	\$ -	\$ 55,808	\$ 55,808
c. Unspent Carry Forward				\$	-

**2. Medicaid Savings**

	FY	FY	FY	Total
a. Prior Year Medicaid Savings Earned	\$ -	\$ -	\$ -	\$ -
b. Current Year Expenditures	\$ -	\$ -	\$ -	\$ -
c. Balance of Medicaid Savings	\$ -	\$ -	\$ -	\$ -

d. Reinvestment Strategy - Medicaid Savings					
1	Project Title	Approved Initiative	Actual Expenditures	Variance Amount	Concise Description Of Outcome(s) Achieved
				Percentage	
a.		\$ -	\$ -	\$ -	0%
b.		\$ -	\$ -	\$ -	0%
c.		\$ -	\$ -	\$ -	0%
d.	Total Reinvestment	\$ -	\$ -	\$ -	0%

Footnote: If space provided for Reinvestment Strategy - Medicaid Savings is not sufficient, please attach additional sheet(s)



# EXAMINED COST SETTLEMENT SCHEDULE

## SECTION C: MAINTENANCE OF EFFORT (MOE) & CATEGORICAL WORKSHEET

CMHSP/PIHP:

NEMCMHA

FISCAL YEAR:

2008

1. MOE - Totals Categories	Contract Authorization	Medicaid		General Fund		Total MOE Expenditures	Revised Authorizations		
		MOE Expenditures	Percent of Total Exp.	MOE Expenditures	Percent of Total Exp.		Medicaid	General Fund	Total
a. Ethnic Population	0	0	0.00%	0	0.00%	0	0	0	0
b. OBRA Active Treatment	0	0	0.00%	0	0.00%	0	0	0	0
c. OBRA Residential	0	0	0.00%	0	0.00%	0	0	0	0
d.	0	0	0.00%	0	0.00%	0	0	0	0
e. Residential Direct Care Wage #2	0	0	0.00%	0	0.00%	0	0	0	0
f. Total	0	0		0		0	0	0	0

2. MOE - Medicaid Categories	Revised Authorization	MOE Requirement	MOE Expectation	Maximum Savings	MOE Expenditures	MOE Balance	Forced Lapse	Savings	Total MOE Exp. & C/F
a. Ethnic Population	0	95.00%	0	0	0	0	0	0	0
b. OBRA Active Treatment	0	95.00%	0	0	0	0	0	0	0
c. OBRA Residential	0	95.00%	0	0	0	0	0	0	0
d.	0	100.00%	0	0	0	0	0	0	0
e. Residential Direct Care Wage #2	0	100.00%	0	0	0	0	0	0	0
f. Total	0		0	0	0	0	0	0	0

3. MOE - General Fund Categories	Revised Authorization	MOE Requirement	MOE Expectation	Maximum C/F	MOE Expenditures	MOE Balance	Forced Lapse	Carry Forward	Total MOE Exp. & C/F
a. Ethnic Population	0	95.00%	0	0	0	0	0	0	0
b. OBRA Active Treatment	0	95.00%	0	0	0	0	0	0	0
c. OBRA Residential	0	95.00%	0	0	0	0	0	0	0
d.	0	100.00%	0	0	0	0	0	0	0
e. Residential Direct Care Wage #2	0	100.00%	0	0	0	0	0	0	0
f. Total	0		0	0	0	0	0	0	0

4. Recap-MOE:	Total MOE Expenditures	Total MOE Savings - C/F	Total MOE LAPSE	Total MOE
a. Medicaid	0	0	0	0
b. General Fund	0	0	0	0
c. Total	0	0	0	0

Sections C.1 through C.4 are not required for FY 2008

5. Categorical - Categories	Authorizations	Expenditures	Lapse
a. Grant Pickup	0	0	0
b. Respite - Tobacco Tax	7,482	4,680	2,802
c. Multicultural Services	0	0	0
d. Other Funding	0	0	0
e. "space holder"	0	0	0
f. Total	7,482	4,680	2,802



**EXAMINED COST SETTLEMENT SCHEDULE**  
**SECTION D: STATE FACILITY WORKSHEET**

CMHSP/PIHP:  
 FISCAL YEAR:

NEMCMHA  
 2008

		Caro Center	Kalamazoo	W. Reuther	Hawthorn	Mt. Pleasant	Mt. Pleasant	Total
1. Days Of Care		\$389	\$365	\$299	\$185	\$173	\$488	
a.	State Report 16007-01							
1.	Days Of Care (10/19/05)	125	187	0	196	366	0	874
2.	Billed Costs	48,625	68,255	0	36,260	63,318	0	216,458
b.	CMHSP Reported							
1.	Days Of Care	125	187	0	196	366	0	874
2.	Billed Costs	48,625	68,255	0	36,260	63,318	0	216,458
c.	Narrative of any variances between State Report 16007-01 and the CMHSP Reported data. Data to include Client Name, Case Number, and Dates of Services:							

2. State Facility Cash Settlement	State Facility Cost	Payments Sent MDCH through 9/30	Payments Sent MDCH after 9/30	Total Payments Sent to MDCH	Balance Due (MDCH)/CMH
a. State Facility Total	216,458	182,177	34,281	216,458	.

3. Reconciliation to FSR		Expenditures	Narrative of Variance
a.	FSR Expenditures (Line J)	\$ 216,458.00	
b.	State Facility Cost	216,458.00	
c.	Variance	\$ -	

**EXAMINED COST SETTLEMENT SCHEDULE**  
**SECTION E: SPECIALTY MANAGED CARE SERVICES WORKSHEET**

CMHSP/PIHP: NEMCMHA  
 FISCAL YEAR: 2008

**1. Specialty Managed Care Savings Forward Calculation**

a	Specialty Managed Care Authorization (PEPM & Accrual)	-	d	Medicaid Non-MOE Maximum Savings	-
b	Less: MOE Authorization	-	e	MOE Savings (From MOE Worksheet)	-
c	Balance Used for Calculation of Savings	-	f	Maximum Savings	-

		Total Program Expenditures	Total Program Funding				Control Total	
			State Responsibility		Redirect GF	CMHSP Responsibility		
			Federal 58.10%	State 41.90%		Local		Other
2. Specialty Managed Care Expenditures								
a. 100% Matchable Services								
1	Total Program Expenditures (inc. QAAP)	702,205	0	0		702,205	702,205	
2	All SSI and Other Reimbursement	702,205						
3	Net State Share 100% Services	0						
b. 90% Matchable Services								
1	Total Program Expenditures	0	0	0		0	0	
2	Other Reimbursement	0						
3	Sub-Total - Medicaid Base	0						
4	Medicaid Federal Share	0						
5	Sub-Total - Match Base	0						
6	10% Local Match Funds	0						
7	Net State Share 50/10 Services	0						
8	Total Specialty Managed Care	702,205	0	0		702,205	702,205	

**3. Specialty Managed Care Authorization to Expenditures**

a	State Authorization	0	0	0			0
b	Local Funding / Other Reimbursements	702,205		0	0	702,205	702,205
c	Total Specialty Managed Care Authorization	702,205	0	0	0	702,205	702,205
d	Total Specialty Managed Care Expenditures	702,205	0	0	0	702,205	702,205
e	Redirection of GF - From GF	0		0			0
f	Redirection of Freed-Up GF - To GF	0		0			0
g	Adjusted Expenditures	702,205	0	0	0	702,205	702,205
h	Funding Surplus / (Deficit)	0					
i	Less: Forced Lapse (MOE)	0					
j	Sub-Total	0					
k	Balance Available for Savings	-					
l	State Obligation for Savings	0					
m	Non-MOE Lapse	0					
n	Risk Corridor	0					

**4. Recap**

	Total Prog. Exp.	State Obligation	CMHSP / Other
a Recap: Total Authorization	702,205	0	702,205
b Recap: Total Matchable Expenditures	702,205	0	702,205
c Recap: Total Redirection	0		
d Recap: Total Savings	0		
e Recap: Forced Lapse MOE	0		
f Recap: Forced Lapse Non-MOE	0		
g Recap: Total Risk Corridor	0		

**EXAMINED COST SETTLEMENT SCHEDULE**  
**SECTION EE: MEDICAID SAVINGS / MEDICAID LAPSE WORKSHEET**

CMHSP/PIHP: NEMCMHA  
 FISCAL YEAR: 2008

**1. Specialty Managed Care**

a.	Operating Budget	0
1.	Band # 1 (100 - 105%)	5% -
2.	Band # 2 (105 - 110%)	5% -

PIHP shall retain  
 Shared PIHP / MDCH

b.	Balance Available for Savings (from Specialty Managed Care Worksheet)	0
1.	Band # 1 Liability	0
2.	Sub-Total - Band # 1	0
3.	Band # 2 Liability	0
4.	Sub-Total - Band # 2	0
5.	Band # 3 Liability	0
6.	Totals	

Medicaid Lapse	Medicaid Savings	Total Savings Corridor
	0	0
0	0	0
0		0
0	0	0

**EXAMINED COST SETTLEMENT SCHEDULE  
SECTION F: GENERAL FUND WORKSHEET**

CMHSP/PIHP: NEMCMHA  
FISCAL YEAR: 2008

**1. GF Authorization / Carry-Forward Calculation**

a.	CMH Operations Funding	1,733,618	g.	Less: MOE Authorization	0
b.	Categorical Funding	7,462	h.	Less: Categorical Authorization	7,462
c.	DCH Risk Authorization	0	i.	Balance Used for Calculation of Carry-Forward	1,877,740
d.	State Facility Funding	143,822	j.	GF Carry-Forward (Non-MOE / Categorical)	93,987
e.	DD Center Adjustment	0	k.	MOE GF Carry-Forward (From MOE Worksheet)	0
f.	Total GF Authorization	1,885,222	l.	Maximum Carry-Forward	93,987

		Total Program Expenditures	State	Redirect GF	CMHSP Responsibility		Control Total
2. General Fund Expenditures					Local	Other	
a.	100% Matchable Services						
1.	Total Program Expenditures (Inc MCH Id, ABW, SED, CW - GF)	448,323	448,323		0		448,323
2.	AI/SSI and Other Reimbursements	0					
3.	Net State Share 100% Services	448,323					
b.	90% Matchable Services						
1.	Total Program Expenditures	1,568,693	1,319,228		146,581	122,884	1,588,693
2.	Other Reimbursements	122,854					
3.	Sub-Total	1,691,547					
4.	10% Local Match Funds	146,581					
5.	Net State Share 90% Services	1,319,228					
c.	Liability for State Services	89,699	89,699				
d.	Total GF & Local Expenditures	2,126,915	1,857,450		146,581	122,884	2,126,915

**3. General Fund Authorization to Expenditures**

a.	State Authorization	1,885,222	1,885,222				1,885,222
b.	Local Funding / Other Reimbursements	269,465			146,581	122,884	269,465
c.	Total GF & Local Authorization	2,154,687	1,885,222	0	146,581	122,884	2,154,687
d.	Total GF & Local Expenditures	2,126,915	1,857,450		146,581	122,884	2,126,915
e.	Redirection of GF to Medicaid	0		0			0
f.	Redirection of Freed Up GF - From Medicaid	0		0			0
g.	Adjusted Expenditures	2,126,915	1,857,450	0	146,581	122,884	2,126,915
h.	Funding Surplus / (Deficit)	27,772					
i.	Less: Forced Lapse (MOE & Categorical)	2,602					
j.	Sub-Total	24,970					
k.	Balance Available for Carry-Forward	24,970					
l.	State Obligation for Carry-Forward	24,970					
m.	Non-MOE Lapse	0					
n.	Risk Corridor	0					

4. Recap		Total Prog. Exp.	State Obligation	CMHSP / Other
a.	Recap: Total Authorization	2,154,687	1,885,222	269,465
b.	Recap: Total Matchable Expenditures	2,126,915	1,857,450	269,465
c.	Recap: Total Redirection	0		
d.	Recap: Total Carry Forward	24,970		
e.	Recap: Forced Lapse MOE & Categorical	2,602		
f.	Recap: Forced Lapse Non-MOE & Categorical	0		
g.	Recap: Total Risk Corridor	0		

**EXAMINED COST SETTLEMENT SCHEDULE**  
**SECTION G: RISK RESPONSIBILITY WORKSHEET**

CMHSP/PIHP: NEMCMHA  
 FISCAL YEAR: 2008

**1. Specialty Managed Care**

a	Operating Budget		0	
1.	Band # 1 (100 - 105%)	5%	-	Full CMHSP Responsibility
2.	Band # 2 (105 - 110%)	5%	-	Shared State / CMHSP Responsibility
b.	Risk (from Specialty Managed Care Summary worksheet)		0	
1.	Band # 1 Liability		0	
2.	Sub-Total - Band # 1		0	
3.	Band # 2 Liability		0	
4.	Sub-Total - Band # 2		0	
5.	Band # 3 Liability		0	
6.	Totals		0	

State Risk	Local Risk	Total Risk Corridor
	0	0
0	0	0
0		0
0	0	0

**2. General Fund**

Effective October 1, 2005, MDCH/CMHSP Managed Mental Health Supports and Services Contract - Non-Medicaid no longer has a shared risk arrangement.

**EXAMINED COST SETTLEMENT SCHEDULE**  
**SECTION H: CHILDREN'S WAIVER**

**CMHSP/PIHP:**  
**FISCAL YEAR:**

**NEMCMHA**  
**2008**

**For 2008 - Optional reporting only.**

1. Prior Fiscal Year Reporting		Accounts Receivable At 9/30	Cash Received Current FY	Variance	Medicaid Claims Pending
a.	Services Provided October 1 - September 30			0	

**Informational Purposes Only**

The Children's Waiver program remains on a Fee-For-Service basis. The information reported will be used to justify the accounts payable on the State's books for the outstanding liability.

2. Current Fiscal Year Cost		Number of Approved Waivers	Gross Cost Of Children's Waiver	Fee-For-Service Expenditures	Variance
a.	Services Provided October 1 - September 30				0

**Informational Purposes Only**

Comparing Medicaid screen reimbursement to actual Children's Waiver expenditures.

3. Current Fiscal Year Reporting		Fee-For-Service Expenditures	Fee-For-Service Cash Received	Amounts Billed and Not Received	Amounts Not Billed	Total Amount Due For Fee-For-Service
a.	Services Provided October 1 - September 30	0				0

**Informational Purposes Only**

The Children's Waiver program remains on a Fee-For-Service basis. The information reported will be used to establish an accounts payable on the State's books for the outstanding liability.

**EXAMINED COST SETTLEMENT SCHEDULE**  
**SECTION 1: CASH AND ACCRUED REVENUE WORKSHEET**

CMHSP/PIHP:

NEMCMHA

FISCAL YEAR:

2008

**1. Specialty Managed Care - Medicaid**

a.	Current FY Capitation Payments Received through 9/30	0
b.	Current FY DD Center Adjustment	0
c.	* Current FY Accruals Established for Period Ending 9/30	0
d.	Sub-Total:	0
	LESS	
e.	** Prior FY Accruals Established for period ending 9/30	0
f.	Total Current FY Settlement Accrued Revenue:	0

* Current FY Accrual Breakdown:	
FY 08 HSW Paid Thru	-
FY 08 HSW Open as of	-
Payment Sub-total:	-
FY 08 HSW Recoveries thru	-
FY 08 HSW Recoveries Open as of	-
Recovery Sub-total:	-
Total Accrual	-

** Prior Year Accruals:	
AY 07 HSW	-
AY 06 HSW	-
Total Prior Year Accrual	-

**2. General Fund (Formula and Categorical Funding)**

a.	Current FY CMH Operations Funding Received through 9/30	1,733,918
b.	Current FY Categorical Funding Received through 9/30	7,482
c.	Current FY State Facility Funding Received through 9/30	143,822
d.	Sub-Total	1,885,222
e.	Estimated Accruals	0
f.	Total Current FY GF Settlement Accrued Revenue	1,885,222

Northeast Michigan Community Mental Health Authority

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2008

SECTION 1 - SUMMARY OF ACCOUNTANTS' RESULTS

Medicaid Program

Type of accountants' report issued on compliance:

Unqualified

Internal control over Medicaid program:

Material weakness(es) identified?

   yes   X   no

Significant deficiency(s) identified not considered  
to be material weaknesses?

  X   yes        None reported

Material noncompliance with the provisions of laws,  
regulations, or contracts noted?

   yes   X   no

Known fraud identified?

       yes   X   no

General Fund Program

Type of accountants' report issued on compliance:

Unqualified

Internal control over General Fund program:

Material weakness(es) identified?

       yes   X   no

Significant deficiency(s) identified not considered  
to be material weaknesses?

       Yes   X   None reported

Material noncompliance with the provisions of laws,  
regulations, or contracts noted?

       Yes   X   no

Known fraud identified?

       Yes   X   no



## SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

### SECTION II - FINDINGS AND QUESTIONED COSTS

Finding Number 2008-1 Medicaid Program

Criteria: Subcontract billing amounts must be supported by a signed contract.

Condition: In one of ten files examined, we noted the monthly billing amount was not in agreement with the rate in the signed contract.

Cause: The subcontractor billed monthly invoices for a different amount than the contract.

Effect: Incorrect monthly billings were paid. The subcontractor was contacted and verified they had billed an incorrect monthly amount. The billings were adjusted to the correct amount at the time the discrepancy was noted.

Management's Response:

All staff responsible for approving contractual invoices have been re-trained to verify that invoiced amounts agree to contract rates prior to invoice approval.

### SECTION III - EXAMINATION ADJUSTMENTS

None.



DENNIS, GARTLAND & NIERGARTH

Certified Public Accountants  
Business Advisors

Thomas E. Gartland, CPA  
Brad P. Niergarth, CPA  
James G. Sherrard, CPA  
Robert C. Thompson, CPA  
Michael D. Shaw, CPA  
Mary F. Krentz, CPA  
Shelly K. Buckland, CPA  
Heidi M. Wende, CPA

## AUDIT RELATED COMMUNICATIONS

To the Board of Directors of the  
Northeast Michigan Community Mental Health Authority

We have audited the financial statements of the business-type activities, the major fund, and the aggregate remaining fund information of the Northeast Michigan Community Mental Health Authority for the year ended September 30, 2008, and have issued our report thereon dated January 26, 2009. Professional standards require that we provide you with the following information related to our audit.

### ***Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards***

As stated in our engagement letter dated October 3, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Northeast Michigan Community Mental Health Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Northeast Michigan Community Mental Health Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on October 29, 2008.

### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Northeast Michigan Community Mental Health Authority are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2008. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was: the useful lives of fixed assets in determining depreciation expense.

Management's estimate of depreciation expense is based on management's assumptions about the useful lives of its fixed assets. We evaluated the key factors and assumptions used to develop depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. You may find Note B related to cash to be particularly sensitive.

### **No Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### **No Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated January 26, 2009.

### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Eleven new auditing standards have been issued that require significant changes in how audits are performed. Similar to the Sarbanes-Oxley rules that impacted publicly-held corporations, these rules are intended to help audited entities strengthen their internal controls. In brief, these new rules require all auditors to:

- Obtain a deeper understanding of the design and operation of internal control
- Assess the effectiveness of internal control
- Obtain corroborating evidence that the understanding is correct and the assessment is appropriate (i.e., inspection of documents, observation of procedures or inquiry)
- Consider "what could go wrong" in the financial statement process (evaluate the risks of financial statement errors)
- Link the results to specific further audit procedures
- Communicate a summary of the results of the auditor's work to those charged with governance (the Board of Directors of the Authority).

As you can see, auditors will spend significantly more time working with all aspects of your internal control. These new rules are not limited to the public sector – they will apply to any organization that obtains an audit (nonprofit organization, private company, etc.). These new rules have impacted audited organizations in two ways: your finance staff has incurred more time and effort in preparation for the audit, and the audit process has required additional time.

## **Other Matters**

1. **Recent Pronouncements.** The Governmental Accounting Standards Board in its continuing process of updating the accounting principles that all governments must adhere to, has issued the following recent pronouncements that will have an impact on the way the Northeast Michigan Community Mental Health Authority District maintains its financial records:
  - A. **GASB Statement No. 43 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.** This statement establishes uniform reporting standards for other postemployment benefit plans. The financial statements focus on reporting current financial information about plan net assets and required note disclosures include a brief plan description, a summary of significant accounting policies, and information about contributions and legally required reserves. The requirements of this statement are effective for financial statements of the Authority for the year ended September 30, 2009.
  - B. **GASB Statement No. 45 - Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.** This statement will require governmental units to record the cost of benefits (such as health insurance, life insurance, etc) in the periods when the related services are received by the employer if these benefits are not provided for through a pension plan. This will require the Authority to accrue and report an actuarially computed liability for any future postemployment benefit other than pensions. The requirements of this statement are effective for financial statements of the Authority for the year ended September 30, 2010.
  - C. **GASB Statement No. 49 - Accounting and Financial Reporting for Pollution Remediation Obligations.** This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This will require the Authority to capitalize pollution remediation outlays in the future. The requirements of this statement are effective for financial statements of the Authority for the year ended September 30, 2009.
  - D. **GASB Statement No. 51 - Accounting and Financial Reporting for Intangible Assets.** This statement establishes consistent standards as to whether intangible assets including easements, timber rights and computer software should be considered capital assets for financial reporting purposes. The requirements of this statement are effective for financial statements of the Authority for the year ended September 30, 2010.
  - E. **GASB Statement No. 52 - Land and Other Real Estate Held as Investments by Endowments.** This statement more appropriately reports the resources available in endowments and more closely aligns financial reporting with the objectives of the endowments. Reporting land and other real estate held as investments at fair value enhances user's ability to meaningfully evaluate an entity's investment decisions and performance. The requirements of this statement are effective for financial statements of the Authority for the year ended September 30, 2009.

## 2. Issues Likely to Impact the Authority.

- A. Government Deposit Insurance.** Under Michigan Law, governmental units, including the Authority, are directed and limited where they may invest or deposit public funds. Depository institutions such as banks, credit unions, or savings and loans may offer FDIC insurance coverage.

The insurance coverage of an Authority's accounts depends upon the type of deposit. All time and savings deposits (which include NOW accounts, CD's, money market deposit accounts, and other interest-bearing accounts) held by an Authority in a particular insured depository institution within the State are added together and insured up to \$250,000. Separately, all demand deposits (checking accounts) held in the same insured depository institution within the same State are added together and insured up to \$250,000. Special rules apply to funds that are required to be set aside for debt owed to holders of notes or bonds – additional insured coverage may be available for the beneficial interest of each bondholder.

Recent market events have indicated that certain financial institutions, including some within the Midwest region, may be experiencing financial distress. In the event of a regulatory takeover of a financial institution, uninsured or underinsured depositors may not receive all of their funds back after the regulatory takeover.

We encourage the Authority to perform the necessary due diligence to assure itself that it has the protection and coverage it desires to protect its public funds.

We wish to thank the staff of the Northeast Michigan Community Mental Health Authority for their assistance during the audit.

This report is intended solely for the information and use of Northeast Michigan Community Mental Health Authority Board of Directors, Michigan Department of Treasury, Management, and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

We commend the Authority for its excellent recordkeeping system and appreciate the opportunity to serve the Northeast Michigan Community Mental Health Authority. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

*Dennis Gurtland & Niergarth*

January 26, 2009